



**General Certificate of Education (A-level)**  
**January 2012**

**Economics**

**ECON4**

**(Specification 2140)**

**Unit 4: The National and International Economy**

**Final**

***Mark Scheme***

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Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation events which all examiners participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for standardisation each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, examiners encounter unusual answers which have not been raised they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

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## Advanced Level Economics Unit 4

### General Instructions

Marks awarded to candidates should be in accordance with the following mark scheme and examiners should be prepared to use the full range of marks available. The mark scheme for most questions is flexible, permitting the candidate to score full marks in a variety of ways. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **MUST** be given. A perfect answer is not necessarily required for full marks. But conversely, if the candidate's answer does not deserve credit, then no marks should be given.

Occasionally, a candidate may respond to a question in a reasonable way, but the answer may not have been anticipated when the mark scheme was devised. In this situation, **OR WHENEVER YOU HAVE ANY DOUBT ABOUT THE INTERPRETATION OF THE MARK SCHEME**, you must in the first instance telephone your team leader to discuss how to proceed.

Two approaches have been used in the construction of the mark scheme.

- (i) **An issue-based approach.** The mark scheme for parts **01**, **02**, **04** and **05** of the data response questions and the first part of each essay question adopts this approach. The mark scheme lists the marks that can be awarded for particular issues (and associated development) that the candidate might include in the answer.
- (ii) **A levels approach.** This approach is used for parts **03** and **06** of the data response questions and the second part of each essay question. The Levels Mark Scheme on the next page identifies five levels representing differences in the quality of work. A range of marks is allocated to each level. First decide the level into which an answer falls. The level chosen should be the one which **best fits** the answer provided by the candidate. It is **not** intended that the answer should satisfy every statement in the level description. Then think in terms of awarding the mid-point mark which has been identified for that level (eg 13 marks for Level 3). Move up or down from this notional mark by considering the extent to which the answer meets the level description overall. Strength in one skill can outweigh weakness in another. When using the Levels Mark Scheme the marker **must** identify where a particular skill is being demonstrated. The **key** to be used to identify the skill is given after the level descriptions. The question-specific mark scheme summarises the information which could be used to answer the question, but without attaching marks to particular issues.

**AQA ADVANCED LEVEL (A2) ECONOMICS**

**LEVELS OF RESPONSE MARK SCHEME  
FOR USE WITH QUESTIONS 03, 06, 08, 10 AND 12 ONLY**

| <b>A2<br/>LEVELS OF<br/>RESPONSE</b>   | <b>AO1<br/>KNOWLEDGE<br/>and UNDERSTANDING<br/>of theories, concepts<br/>and terminology</b>   | <b>AO2<br/>APPLICATION<br/>of theories,<br/>concepts and<br/>terminology</b>   | <b>AO3<br/>ANALYSIS<br/>of economic<br/>problems and issues</b>   | <b>AO4<br/>EVALUATION<br/>of economic<br/>arguments and<br/>evidence, making<br/>informed judgments</b>  |
|--|--|--|---|--|
| <b>Level 5</b><br>22-25 marks<br>(mid-point 24)<br><br><b>Good analysis<br/>and good evaluation</b>  | Good throughout the answer with few errors and weaknesses  | Good application to issues<br><br>Where appropriate, good use of data to support answer  | Relevant and precise with a clear and logical chain of reasoning<br><br>Good awareness of the inter-relatedness of economic issues  | Good with a clear final judgement  |
| <b>Level 4</b><br>17-21 marks<br>(mid-point 19)<br><br><b>Good analysis <u>but</u><br/>limited evaluation</b><br><br><b>OR</b><br><br><b>Reasonable analysis<br/>and reasonable<br/>evaluation</b> | Good throughout the answer with few errors and weaknesses<br><br><br><br>Good throughout much of the answer with few errors and weaknesses | Good application to issues<br><br>Where appropriate, good use of data to support answer<br><br><br>Some good application to issues<br><br>Where appropriate, some good use of data to support answer | Relevant and precise with a clear and logical chain of reasoning<br><br>Good awareness of the inter-relatedness of economic issues<br><br><br>Largely relevant and well organised with reasonable logic and coherence<br><br>Some awareness of the inter-relatedness of economic issues | Limited but showing some appreciation of alternative points of view<br><br><br><br>Reasonable, showing an appreciation of alternative points of view |
| <b>Level 3</b><br>10-16 marks<br>(mid-point 13)<br><br><b>Reasonable answer,<br/>including some<br/>correct analysis but<br/>very limited<br/>evaluation</b>                                       | Satisfactory but some weaknesses shown   | Reasonable application to issues<br><br>Where appropriate, reasonable use of data to support answer  | Reasonably clear but may not be fully developed and is perhaps confused in places with a few errors present<br><br>Quite well organised with some logical development   | Superficial, perhaps with some attempt to consider both sides of the issue(s)  |
| <b>Level 2</b><br>4-9 marks<br>(mid-point 7)<br><br><b>Weak with some<br/>understanding</b>  | Limited and some errors are made   | Partial application to issues with some errors<br><br>Where appropriate, limited use of data to support answer   | Partial but confused at times, lacking focus and development<br><br>Limited logic and coherence   | A very basic and simplistic attempt is made which is unsupported by analysis   |
| <b>Level 1</b><br>0-3 marks<br>(mid-point 2)<br><br><b>Very weak</b>   | Weak with a number of errors   | Little, if any, application to issues<br><br>Where appropriate, no use of data to support answer   | Poor and lacking clarity and focus  | No relevant evaluation   |

### THE KEY TO BE USED WHEN USING THE LEVELS MARK SCHEME

- D** Where a particular economic term is correctly **DEFINED** in order to help the candidate to answer the question properly.
- I** Where a relevant **ISSUE** is raised by the candidate.
- K** Where the candidate demonstrates **KNOWLEDGE** of recent developments or features of the economy which help enhance the candidate's response to the question. This should also be used where the candidate quotes relevant examples.
- Ap** Where the candidate demonstrates the ability to **APPLY** knowledge and **CRITICAL UNDERSTANDING** to problems and issues.
- An** Where the candidate demonstrates the ability to **ANALYSE** the problem using appropriate economic ideas.
- E** Where the candidate **EVALUATES** and makes judgements about the significance of various issues and arguments.

### Synoptic Assessment

All questions in this unit are synoptic. Therefore, candidates will need to demonstrate that they are able to think as an economist and to use effectively the economist's 'tool kit' of concepts, theories and techniques.

They should demonstrate that they:

- understand the inter-relatedness of many economic issues, problems and institutions;
- understand how certain economic concepts, theories and techniques may be relevant to a range of different contexts;
- can apply concepts, theories and techniques in analysing economic issues and problems and in evaluating arguments and evidence.

### QUALITY OF WRITTEN COMMUNICATION

**Quality of Written Communication (QWC) will be assessed in Questions 03, 06, 08, 10 and 12 only.**

Candidates will be assessed according to their ability to:

- ensure that text is legible, and that spelling, grammar and punctuation are accurate, so that meaning is clear
- select and use a form and style of writing appropriate to purpose and complex subject matter
- organise information clearly and coherently, using specialist vocabulary when appropriate.

No specific marks are awarded for QWC.

However, examiners should take into account QWC when determining the mark to be awarded for an answer. This means an answer could be taken either up (for exceptional QWC) or down (for very poor QWC) by 1 mark (and no more).

## 1 THE GLOBAL CONTEXT

**Total for this Context: 40 marks**

- 01** Using **Extract A**, calculate India's balance of payments on current account for the first quarter (Q1) of 2009 **and** identify **one** significant feature of the data for India's balance of payments on current account for 2009. (5 marks)

**The calculation:**

Value: **- \$1.2 billion (or bn)**

|  |                |
|--|----------------|
| For the correct answer <b>with</b> the unit shown.<br>(Workings need not be shown).    | <b>3 marks</b> |
| For the correct answer <b>without</b> the unit shown.<br>(Workings need not be shown). | <b>2 marks</b> |
| For showing the correct method but arriving at the wrong answer.                       | <b>1 mark</b>  |

**Identifying one significant feature:**

|  |                            |
|--|----------------------------|
| For identifying a significant feature and providing one piece of supporting data with the unit (\$bn) shown. | <b>3 marks<br/>(1 + 2)</b> |
| For identifying a significant feature but using data without the unit shown.                                 | <b>2 mark<br/>(1 + 1)</b>  |
| For identifying a significant feature without supporting data.   | <b>1 mark</b>              |
| For simply providing one item of data with or without the unit shown.  | <b>0 marks</b>             |

**The significant features include:**

- visible trade is always in deficit, eg first quarter \$ - 20.2bn
- invisible trade is always in surplus, eg fourth quarter \$ + 22.4bn
- visible exports rise in value for first half of 2009 and then decline, eg \$57.5bn in 2<sup>nd</sup> qtr to \$39.4bn in 4<sup>th</sup> qtr
- visible imports rise in value for quarters 1 – 3 and then decline, eg 3<sup>rd</sup> qtr \$92.8bn, \$73.5bn in 4<sup>th</sup> qtr
- net invisible trade rises for quarters 1 – 3 and then declines, eg 3<sup>rd</sup> qtr + \$26.5bn, 4<sup>th</sup> qtr + \$22.4bn
- range of values: visible exports \$19bn, visible imports \$34.1bn, net invisibles \$7.5bn (only one reference required from data for award of 2 marks)
- all three are higher at end of year than start, eg visible exports rise from \$38.5bn to \$39.4bn, visible imports \$58.7bn to \$19bn to \$73.5bn, invisible balance from \$19bn to \$22.4bn.

**MAXIMUM FOR PART 01 : 5 MARKS**

|           |   |
|-----------|---|
| <b>02</b> | <b>Extract B</b> (line 10) suggests that ‘there is often a trade-off’ between inflation and economic growth.<br><br>Explain why there might be a trade-off between inflation and economic growth <b>and</b> analyse <b>one</b> cause of inflation. (10 marks) |
|-----------|---|

|  |   |
|--|---|
| For defining the concept of trade-off, inflation, demand-pull inflation, cost-push inflation, economic growth, or any other relevant definition. | <b>Up to 2 marks per definition to a maximum of 2 marks but ensure definitions are not also credited below.</b> |
|--|---|

|   |  |
|---|--|
| <b>Explanation.</b><br><b>Award one mark for each step in a logical chain of reasoning. For example:</b>  |  |
| How rising aggregate demand as a result of the growth process might put pressure on prices, leading to demand-pull inflation, and hence cause action to be taken to reduce AD.  | <b>Up to 4 marks</b>   |
| How economic growth might increase pressure of demand on resources, cause producer costs to rise, causing in turn price increases and hence cost-push inflation. Action might then be taken to limit growth in order to reduce pressure of demand on resources. |  |
| For use of relevant diagrams, eg AD/AS, Phillips Curve.   | <b>Up to 2 marks but not additional to 4 marks if this maximum is awarded for the written part of the answer.</b><br><b>(1 mark for labelling, 1 mark for the correct information shown)</b> |

**Maximum of 4 marks for the explanation**

|   |                                |
|---|--------------------------------|
| <b>Analysis of causes of inflation.</b><br><b>Award one mark for each step in a logical chain of reasoning. For example:</b>  |                                |
| Loose monetary policy ( <b>1 mark</b> ) such as lower interest rates ( <b>1 mark</b> ) and increased money supply ( <b>1 mark</b> ) causing AD to rise ( <b>1 mark</b> ) because of, for example, cheaper consumer credit ( <b>1 mark</b> ), causing prices to rise if AS cannot respond ( <b>1 mark</b> ). | <b>Up to 6 marks</b>           |
| Loose fiscal policy such as lower taxation.   | <b>Up to 6 marks</b>           |
| Supply-side shocks such as rising oil prices.   | <b>Up to 6 marks</b>           |
| Other cost pressures such as rising wage costs.   | <b>Up to 6 marks</b>           |
| Rising expectations of future price rises.  | <b>Up to 6 marks</b>           |
| Analysis in terms of demand-pull factors generally.   | <b>Up to 6 marks</b>           |
| Analysis in terms of cost-push factors generally.   | <b>Up to 6 marks</b>           |
| Any other valid analysis.   | <b>Up to 6 marks per issue</b> |

|  |  |
|--|--|
| Make use of appropriate diagrams in the analysis, eg AD/AS, Phillips Curve | <b>Up to 2 marks per diagram (1 mark for labelling, 1 mark for the correct information shown) to a maximum of 3 marks.</b> |
|--|--|

A candidate can be awarded a maximum of **6 marks** if only the explanation or the analysis is attempted.

**MAXIMUM FOR PART 02: 10 MARKS**



**03** **Extract B** (lines 2-3) states that ‘India’s economic success would help to bring some relief to the UK economy and speed the recovery process through increased exports’.

Using the data and your economic knowledge, assess the importance to the UK economy of continued economic growth in India. (25 marks)

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

Where there is no **explicit** reference to the data, award a maximum of **21 marks**.

|                |  |                                       |
|----------------|--|---------------------------------------|
| <b>Level 5</b> | <b>Good analysis <u>and</u> good evaluation</b>  | <b>22-25 marks<br/>(mid-point 24)</b> |
| <b>Level 4</b> | <b>Good analysis <u>but</u> limited evaluation</b><br><b>OR</b><br><b>Reasonable analysis <u>and</u> reasonable evaluation</b> | <b>17-21 marks<br/>(mid-point 19)</b> |
| <b>Level 3</b> | <b>Reasonable answer, including some correct analysis but very limited evaluation</b>  | <b>10-16 marks<br/>(mid-point 13)</b> |
| <b>Level 2</b> | <b>Weak with some understanding</b>  | <b>4-9 marks<br/>(mid-point 7)</b>    |
| <b>Level 1</b> | <b>Very weak</b>   | <b>0-3 marks<br/>(mid-point 2)</b>    |

|                     |   |
|---------------------|---|
| <b>Introduction</b> | <ul style="list-style-type: none"> <li>• economic growth</li> <li>• other macroeconomic performance indicators</li> <li>• the contrasting economies of India and the UK.</li> </ul>   |
| <b>Application</b>  | <ul style="list-style-type: none"> <li>• Line 3: reference to increased exports</li> <li>• Lines 6-8: impressive quarterly growth which, if maintained, could create spin-offs for the UK</li> <li>• Line 18-19: GDP, multiplier, accelerator</li> <li>• Line 19: inward investment from India</li> <li>• Lines 24 – 28: benefits for the UK from India’s infra-structure development</li> <li>Line 31: the limitations for the UK if India remains ‘fiercely protective’.</li> </ul> |

|  |   |
|--|---|
| <p><b>Developing the response to the question</b></p> <p><b>Analysis</b></p> | <ul style="list-style-type: none"> <li>• how it is expected that India might develop in the future</li> <li>• the current importance of India to the UK and how this might change in the future</li> <li>• the potential impact on UK economic growth</li> <li>• the potential impact on the UK balance of payments both on current and capital accounts</li> <li>• the potential impact on employment/unemployment</li> <li>• UK structural change influenced by economies such as India</li> <li>• the impetus that stronger links with India may give to supply-side reforms</li> <li>• the impact on productivity and competitiveness</li> <li>• the impact on investment flows</li> <li>• use of diagrams</li> <li>• reference to other economies.</li> </ul>  |
| <p><b>Evaluation</b></p>   | <ul style="list-style-type: none"> <li>• India needs to be put into the context of other significant fast-developing nations which may all eventually play a part in UK macroeconomic performance</li> <li>• India needs to be put into the context of our currently important trading partners – the US and the EU</li> <li>• India may decide to remain protectionist in terms of certain types of investment and trade</li> <li>• how more effective, if at all, some of our competitors are in penetrating the Indian economy</li> <li>• the net trade flow</li> <li>• the net investment flow</li> <li>• whether the UK produces what India's development requires, and, if not, whether the UK is able and willing to carry out the required structural change</li> <li>• how supportive the UK government is of private sector efforts in penetrating the Indian economy</li> <li>• whether or not India's growth and development continues in the current global economic climate</li> <li>• a final judgement on the overall likely importance of India to the UK economy.</li> </ul> <p><i>Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i></p> |

**SEE THE LEVELS MARK SCHEME ON PAGES 4 & 5  
FOR FURTHER CLARIFICATION**

**MAXIMUM FOR PART 03: 25 MARKS**

## 2 THE EUROPEAN UNION CONTEXT

Total for this Context: 40 marks

- 04** Using **Extract C**, calculate the value of GDP for Greece in 2006 **and** identify **one** significant feature of the data for the annual percentage change in the components of GDP for the period 2007 to 2009. (5 marks)

The calculation:

GDP for 2006: €10bn

|   |                |
|---|----------------|
| For the correct answer with the unit shown.<br>(Workings need not be shown).    | <b>3 marks</b> |
| For the correct answer without the unit shown.<br>(Workings need not be shown). | <b>2 marks</b> |
| For showing the correct method but arriving at the wrong answer.                | <b>1 mark</b>  |

Identifying one significant feature:

|   |                                  |
|---|----------------------------------|
| For identifying a significant feature and providing one piece of supporting data with the unit (%) shown. | <b>3 marks</b><br><b>(1 + 2)</b> |
| For identifying a significant feature but using data without the unit shown.                              | <b>2 marks</b><br><b>(1 + 1)</b> |
| For identifying a significant feature without supporting data.  | <b>1 mark</b>                    |
| For simply providing one item of data with or without the unit shown.                                     | <b>0 marks</b>                   |

Significant features of the data for 2007 to 2009 include:

- all components show negative growth in 2009 except government consumption, eg household consumption -2.0%, government consumption +10.0%
- only investment has negative growth in 2008 (-7.0%)
- all percentage changes are positive in 2007, eg government consumption +8.0%
- all components show a declining rate of growth when comparing 2007 and 2009 except government consumption which rises from 8% in 2007 to 10.0% in 2009
- exports have the biggest range of values, +6% to -18.0%
- household consumption has the smallest range of values, +3.0% in 2007 to -2.0% in 2009.

**MAXIMUM FOR PART 04: 5 MARKS**

**05 Extract D** (lines 1-2) refers to EU governments ‘spending their way out of recession’.

Explain the term ‘spending their way out of recession’ **and** analyse **two** reasons for government spending **other** than to influence the economic cycle.  
(10 marks)

For defining spending, fiscal policy, recession, or any other relevant definition.

**Up to 2 marks per definition to a maximum of 2 marks but ensure definitions are not also credited below**

**Explanation**

**Award one mark for each step in a logical chain of reasoning. For example:**

How government spending might help raise AD, especially if compensating for lower private sector spending, perhaps with reference to the multiplier process.

**Up to 4 marks**

The potentially most effective types of spending for this purpose.

For use of relevant diagrams, e.g. AD/AS, economic cycle, output gap (s).

**Up to 2 marks but not additional to 4 marks if this maximum is awarded for the written part of the answer.**

**(1 mark for labelling, 1 mark for the correct information shown)**

**Maximum of 4 marks for the explanation**

**The analysis of two reasons for government spending.**

**Award one mark for each step in a logical chain of reasoning. For example:**

Spending may be used to influence the distribution of income **(1 mark)** so helping to alleviate poverty **(1 mark)** perhaps through the provision of welfare benefits **(1 mark)** such as Job Seeker’s Allowance **(1 mark)** or through job-creation schemes **(1 mark)** or through spending in regions particularly hard-hit by long-term unemployment **(1 mark)**.

**Up to 6 marks**

Provision of public goods.

**Up to 6 marks**

Provision of merit goods.

**Up to 6 marks**

Introduction/development of supply-side reforms.

**Up to 6 marks**

Any other valid analysis

**Up to 6 marks per issue**

|   |  |
|---|--|
| Make use of appropriate diagrams in the analysis, eg<br>AD/AS, MPC/MPC – MPB/MSB. | <b>Up to 2 marks per diagram<br/>(1 mark for labelling, 1 mark for<br/>the correct information shown)<br/>to a maximum of 3 marks.</b> |
|---|--|

A candidate can be awarded a maximum of **6 marks** if only the explanation or the analysis is attempted and a maximum of **8 marks** if only one reason for government spending is analysed. If more than two reasons are analysed, reward the best two.

**MAXIMUM FOR PART 05: 10 MARKS**

**06** **Extract D** (lines 16-18) suggests that France and Germany would like the EU to have 'the power to impose an EU-wide fiscal policy on all member states and not just the eurozone'.

Using the data and your economic knowledge, assess the possible economic consequences for the UK economy of an EU-wide fiscal policy requiring all member states to balance their budgets. (25 marks)

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

Where there is no **explicit** reference to the data, award a maximum of **21 marks**.

|                |  |                                       |
|----------------|--|---------------------------------------|
| <b>Level 5</b> | <b>Good analysis <u>and</u> good evaluation</b>  | <b>22-25 marks<br/>(mid-point 24)</b> |
| <b>Level 4</b> | <b>Good analysis <u>but</u> limited evaluation</b><br><b>OR</b><br><b>Reasonable analysis <u>and</u> reasonable evaluation</b> | <b>17-21 marks<br/>(mid-point 19)</b> |
| <b>Level 3</b> | <b>Reasonable answer, including some correct analysis but very limited evaluation</b>  | <b>10-16 marks<br/>(mid-point 13)</b> |
| <b>Level 2</b> | <b>Weak with some understanding</b>  | <b>4-9 marks<br/>(mid-point 7)</b>    |
| <b>Level 1</b> | <b>Very weak</b>   | <b>0-3 marks<br/>(mid-point 2)</b>    |

|                     |  |
|---------------------|--|
| <b>Introduction</b> | <ul style="list-style-type: none"> <li>the nature of the EU perhaps with reference to institutions</li> <li>the UK position within the EU</li> <li>fiscal policy and budgetary positions</li> <li>criteria for assessing consequences.</li> </ul>  |
| <b>Application</b>  | <ul style="list-style-type: none"> <li>Lines 1-3: the remedial Keynesian approach now denied to member states</li> <li>Line 4: the abandonment of fiscal rules</li> <li>Lines 11-14: the crisis in Greece arising from fiscal looseness</li> <li>Lines 19-23: the UK Government seeming to be a step ahead of some in the EU especially with the setting up of the OBR.</li> <li>Keynesian multiplier</li> <li>Budgetary positions</li> <li>Current account deficits.</li> </ul> |

|  |  |
|--|--|
| <p><b>Developing the response to the question</b></p> <p><b>Analysis</b></p> | <ul style="list-style-type: none"> <li>• the general economic consequences any individual economy might expect in trying to achieve a balanced budget</li> <li>• the consequences for the EU as a whole of achieving that position</li> <li>• the idea of 27 nations being required to follow the same policy</li> <li>• the reasons for the policy</li> <li>• the impact on economic growth</li> <li>• the impact on living standards in the short term and long term</li> <li>• the impact on employment/unemployment</li> <li>• the impact on the UK's balance of payments on current account</li> <li>• the impact on inflation</li> <li>• the possibility of deflation</li> <li>• the impact on types and levels of government spending</li> <li>• the changes in taxation and the possible impact of the changes</li> <li>• use of relevant diagrams</li> <li>• reference to other economies.</li> </ul>   |
| <p><b>Evaluation</b></p>   | <ul style="list-style-type: none"> <li>• whether or not the policy is introduced for economic reasons or to reflect a particular political philosophy may influence judgement on the policy</li> <li>• the time given for any one country to achieve a balance</li> <li>• the UK's original fiscal position at the time the policy is introduced</li> <li>• for how long a country will be expected to continue with the policy</li> <li>• whether or not the policy will be effectively enforced</li> <li>• whether the UK pursues the policy mainly through tax increases or public spending cuts or a combination of both</li> <li>• whether it will be short-term 'pain' for long-term benefit</li> <li>• the differing impact on particular sections of the UK population</li> <li>• whether additional private sector activity will compensate</li> <li>• whether monetary policy has the same constraints imposed</li> <li>• the problems which 'one-size-fits-all' policy tends to generate for individual nations</li> <li>• a final judgement on the overall impact on the UK economy.</li> </ul> <p><i>Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i></p> |

**SEE THE LEVELS MARK SCHEME ON PAGES 4 & 5  
FOR FURTHER CLARIFICATION**

**MAXIMUM FOR PART 06: 25 MARKS**

## SECTION B

### Essay 1

**Total for this Essay: 40 marks**

|           |   |
|-----------|---|
| <b>07</b> | Explain <b>three</b> possible reasons for growth in the value of an economy's exports of goods.<br>(15 marks) |
|-----------|---|

|  |   |
|--|---|
| <b>For</b> <ul style="list-style-type: none"> <li>defining exports or export of goods</li> <li>value v volume</li> <li>placing exports into the context of trade in goods and services</li> <li>placing exports into the context of the balance of payments on current account.</li> </ul> | <b>Up to 2 marks per point defined or explained to a maximum of 4 marks</b> |
|--|---|

|  |   |
|--|---|
| <b>For explaining three possible reasons for growth in the export of goods.</b><br><b>Award one mark for each step in a logical chain of reasoning. For example:</b>   |   |
| Comparative advantage is established or strengthened (1 mark) where an economy can produce a good at a lower opportunity cost than another country (1 mark) and therefore has a greater likelihood of improved competitiveness and more efficient use of resources (1 mark), so that sales should rise in foreign markets (1 mark). In the UK the financial services sector has developed this advantage (1 mark). An illustrative numerical example of comparative advantage (4 marks). | <b>Up to 7 marks</b>  |
| Rising incomes overseas.   | <b>Up to 7 marks</b>  |
| Improved productivity in the exporting economy.  | <b>Up to 7 marks</b>  |
| A lower rate of inflation compared to trading partners or perhaps deflation in contrast to competitors' inflation.   | <b>Up to 7 marks</b>  |
| Government support for the export sector.  | <b>Up to 7 marks</b>  |
| Exchange rate depreciation.  | <b>Up to 7 marks</b>  |
| Changes in export prices.  | <b>Up to 7 marks</b>  |
| Any other valid cause.   | <b>Up to 7 marks per reason explained</b>   |
| Use of diagrams to help support explanations, eg comparative advantage, exchange rates.  | <b>Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a total of 4 marks</b> |

Reward references to the UK economy.

**1 mark per reference  
up to a maximum of 2 marks**

**Award a maximum of 12 marks if 3 reasons are not considered.**

**If more than 3 reasons are considered, reward the best 3.**

**MAXIMUM FOR PART 07: 15 MARKS**



**08** Evaluate the view that an increasing deficit in UK trade in goods is a major problem for the UK economy. (25 marks)

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

To achieve **Level 4**, at least **two** issues should be presented and evaluated.

|                |  |                                       |
|----------------|--|---------------------------------------|
| <b>Level 5</b> | <b>Good analysis <u>and</u> good evaluation</b>  | <b>22-25 marks<br/>(mid-point 24)</b> |
| <b>Level 4</b> | <b>Good analysis <u>but</u> limited evaluation<br/>OR<br/>Reasonable analysis <u>and</u> reasonable evaluation</b> | <b>17-21 marks<br/>(mid-point 19)</b> |
| <b>Level 3</b> | <b>Reasonable answer, including some correct analysis but very limited evaluation</b>                              | <b>10-16 marks<br/>(mid-point 13)</b> |
| <b>Level 2</b> | <b>Weak with some understanding</b>  | <b>4-9 marks<br/>(mid-point 7)</b>    |
| <b>Level 1</b> | <b>Very weak</b>   | <b>0-3 marks<br/>(mid-point 2)</b>    |

|   |   |
|---|---|
| <b>Introduction</b>   | <ul style="list-style-type: none"> <li>the trade in goods</li> <li>the balance of payments on current account – deficits and surpluses</li> <li>criteria for assessing the impact of a deficit</li> <li>the potential nature of the problem in the context of the UK economy.</li> </ul>  |
| <b>Developing the response to the question</b><br><br><b>Analysis and Application</b> | <ul style="list-style-type: none"> <li>the possible determinants of a successful export performance</li> <li>possible determinants of imports</li> <li>whether competitiveness in world markets is an underlying issue and is the real cause for concern</li> <li>Whether global macroeconomic conditions provide part of the answer and whether they will be a temporary phenomenon</li> <li>whether deficits arise from a loss of comparative advantage</li> <li>the part played by the exchange rate at any one time and whether this is a temporary difficulty</li> <li>whether non-price factors must be seen as a cause for concern</li> <li>deindustrialisation as part of the explanation over the long term</li> <li>the impact of deficits on other macroeconomic indicators – growth and employment</li> <li>the compensatory role of invisibles</li> <li>the compensatory role of capital flows</li> <li>the possibility that a deficit might be a reflection of rising living standards in a country</li> <li>use of diagrams</li> <li>reference to the UK and/or other economies</li> </ul> |

|                   |  |
|-------------------|--|
| <b>Evaluation</b> | <ul style="list-style-type: none"><li>• how persistent the deficit is</li><li>• how large the deficit is, for example, in relation to GDP</li><li>• whether it has an impact on the exchange rate and the consequences of this</li><li>• the ability to borrow, if necessary, to finance the deficit</li><li>• whether, in reality, it has had any lasting adverse impact on growth or jobs</li><li>• whether the attempts to reduce it cause more problems, e.g. deflation of AD</li><li>• whether the deficit brings higher living standards, if only in the short term</li><li>• is the deficit indicative of a country 'living beyond its means'?</li><li>• it may lead to calls for increased protectionism which may cause long term problems</li><li>• the need to distinguish actions to control the deficit from actions to bring about a long term solution</li><li>• international opinion of the deficit</li><li>• whether it brings intervention by the IMF</li><li>• a final judgement.</li></ul> <p><i>Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i></p> |
|-------------------|--|

**USE THE LEVELS MARK SCHEME ON PAGES 4 & 5**

**MAXIMUM FOR PART 08: 25 MARKS**

**09** Explain how supply-side factors might help to achieve sustained economic growth.  
(15 marks)

|  |   |
|--|---|
| <b>For</b> <ul style="list-style-type: none"> <li>defining supply side or supply-side factors</li> <li>government policy or business initiatives</li> <li>defining economic growth or sustained economic growth</li> <li>explaining the connection between supply-side factors and sustained economic growth, ie supply-side generated growth is less likely to bring conflict with other objectives.</li> </ul> | <b>Up to 2 marks per point defined or explained to a maximum of 4 marks</b> |
|--|---|

**For explaining how supply-side factors help to achieve sustained economic growth. Award one mark for each step in a logical chain of reasoning. For example:**

|   |   |
|---|---|
| Supply-side factors will have an impact on both the long- and short-run aggregate supply curves of an economy <b>(1 mark)</b> shifting them to the right <b>(1 mark)</b> , indicating that the productive potential of the economy has increased <b>(1 mark)</b> . The production possibility frontier will also shift to the right <b>(1 mark)</b> , indicating that the economy has gained more resources <b>(1 mark)</b> or is using existing resources more efficiently <b>(1 mark)</b> . The trend rate of growth should therefore show an improvement <b>(1 mark)</b> . | <b>Up to 7 marks</b>  |
| The impact of investment.   | <b>Up to 7 marks</b>  |
| The impact of productivity.   | <b>Up to 7 marks</b>  |
| Education and Training.   | <b>Up to 7 marks</b>  |
| Welfare Reform.   | <b>Up to 7 marks</b>  |
| Occupational and geographical mobility.   | <b>Up to 7 marks</b>  |
| Any other valid point.  | <b>Up to 7 marks per factor explained</b>   |
| Use of diagrams to help support explanations, eg AD/AS, PPF   | <b>Up to 2 marks per diagram (1 mark for labelling, 1 mark for correct information shown) to a total of 4 marks</b> |

Reward references to the UK economy

**1 mark per reference  
up to a maximum of 2 marks**

**Where a candidate does little more than list a number of supply-side factors in the explanation, award a maximum of 7 marks for the answer as a whole.**

**MAXIMUM FOR PART 09: 15 MARKS**

- 10** Discuss the view that the main reason for a country wanting to achieve sustained economic growth is to bring about an increase in private sector consumption.  
(25 marks)

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

|                |  |                                       |
|----------------|--|---------------------------------------|
| <b>Level 5</b> | <b>Good analysis <u>and</u> good evaluation</b>  | <b>22-25 marks<br/>(mid-point 24)</b> |
| <b>Level 4</b> | <b>Good analysis <u>but</u> limited evaluation</b><br><b>OR</b><br><b>Reasonable analysis <u>and</u> reasonable evaluation</b> | <b>17-21 marks<br/>(mid-point 19)</b> |
| <b>Level 3</b> | <b>Reasonable answer, including some correct analysis but very limited evaluation</b>  | <b>10-16 marks<br/>(mid-point 13)</b> |
| <b>Level 2</b> | <b>Weak with some understanding</b>  | <b>4-9 marks<br/>(mid-point 7)</b>    |
| <b>Level 1</b> | <b>Very weak</b>   | <b>0-3 marks<br/>(mid-point 2)</b>    |

|   |  |
|---|--|
| <b>Introduction</b>   | <ul style="list-style-type: none"> <li>• sustained economic growth</li> <li>• public sector v private sector origins</li> <li>• private sector consumption</li> <li>• standard of living</li> <li>• measures of living standards.</li> </ul>   |
| <b>Developing the response to the question</b><br><br><b>Analysis</b><br><br><b>and</b><br><br><b>Application</b> | <ul style="list-style-type: none"> <li>• higher living standards as the ultimate objective in securing sustained economic growth which will include, importantly, private sector consumption</li> <li>• the other benefits of growth in terms of the balance of payments on current account, the attractions of a growing economy to overseas investors, and to employment, but some of these ultimately have a link with private sector consumption</li> <li>• economic growth and material well-being</li> <li>• economic growth and the quality of life</li> <li>• economic growth and the increased resources available for environmental purposes</li> <li>• measures such as the Human Development Index showing that income per head is one small part of a bigger picture</li> <li>• reference to the UK and/or other economies</li> <li>• use of diagrams.</li> </ul> |

|                   |   |
|-------------------|---|
| <b>Evaluation</b> | <ul style="list-style-type: none"><li>• the necessity of sustaining the growth process if there is to be a significant impact on income per head</li><li>• negative economic growth causing average incomes to come under pressure</li><li>• the motivation/reasons for securing sustained growth will vary with the individual country and government with the ultimate objective perhaps being more political rather than economic.</li><li>• the weakness of certain aspects of the macroeconomy may be the reason for securing growth and the secondary impact on private sector consumption seen as a bonus</li><li>• the benefits to income per head may pale into insignificance if sustained growth really has meant environmental protection and conservation of resources, rather than, as some view it, just growth without conflict with other macroeconomic objectives such as stable prices</li><li>• individuals may welcome the initial boost to incomes but then recognise that this has come at a price in terms of their quality of life</li><li>• a final judgement on whether sustained growth is really only sought for securing higher income per head.</li></ul> <p><i>Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i></p> |
|-------------------|---|

**SEE THE LEVELS MARK SCHEME ON PAGES 4 & 5  
FOR FURTHER CLARIFICATION**

**MAXIMUM FOR PART 10: 25 MARKS**

- |           |  |
|-----------|--|
| <b>11</b> | As unemployment rises, explain <b>two</b> possible economic problems which might affect individuals in the UK <b>and two</b> possible economic problems which might affect the UK economy as a whole.<br><span style="float: right;">(15 marks)</span> |
|-----------|--|

|   |   |
|---|---|
| <b>For</b> <ul style="list-style-type: none"> <li>defining unemployment</li> <li>making reference to official measures of unemployment</li> <li>explaining types of unemployment</li> </ul> | <b>Up to 2 marks per point defined or explained to a maximum of 4 marks</b> |
|---|---|

**For explaining the impact of rising unemployment on the economy.**

**Award one mark for each step in a logical chain of reasoning. For example:**

|   |   |
|---|---|
| The impact on AD ( <b>1 mark</b> ) as average incomes fall reducing household spending power ( <b>1 mark</b> ) and a consequent fall in confidence discouraging business investment ( <b>1 mark</b> ). In contrast, AD will be influenced if businesses may make greater efforts to secure export markets ( <b>1 mark</b> ), while government spending may increase to help the unemployed ( <b>1 mark</b> ). | <b>Up to 5 marks</b>                      |
| Changes in government spending and taxation and the economic impact of these.   | <b>Up to 5 marks</b>                      |
| Impact on government finances as spending increases but tax revenues fall.  | <b>Up to 5 marks</b>                      |
| Overall impact on economic growth.  | <b>Up to 5 marks</b>                      |
| The problem of rising inequality.   | <b>Up to 5 marks</b>                      |
| The waste of resources so that the economy operates at less than full capacity.   | <b>Up to 5 marks</b>                      |
| Any other valid point.  | <b>Up to 5 marks per effect explained</b> |

**For explaining the impact of higher unemployment on individuals.**

**Award one mark for each step in a logical chain of reasoning. For example:**

|   |                      |
|---|----------------------|
| The effect on living standards generally ( <b>1 mark</b> ) as consumption of goods and services, such as food and alcohol, is curtailed ( <b>1 mark</b> ). The quality of life is affected as spending limits are placed on, for example, heating and holidays ( <b>1 mark</b> ). The type of housing may need to be reconsidered ( <b>1 mark</b> ) as a mortgage or existing rent become unaffordable ( <b>1 mark</b> ). | <b>Up to 5 marks</b> |
| The level of income in particular and the impact on living standards.   | <b>Up to 5 marks</b> |
| The reluctance to claim, but the necessity of claiming, welfare benefits – perhaps further demoralising the individual.   | <b>Up to 5 marks</b> |

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|   |   |
|---|---|
| Lower morale, perhaps resulting from unsuccessful job search impacting on worker performance. | <b>Up to 5 marks</b>                      |
| The dangers of long-term unemployment.  | <b>Up to 5 marks</b>                      |
| The need for geographical and/or occupational mobility (with implications for re-training).   | <b>Up to 5 marks</b>                      |
| Long-term financial implications in terms of savings and pensions.                            | <b>Up to 5 marks</b>                      |
| Any other valid point.  | <b>Up to 5 marks per effect explained</b> |

|  |   |
|--|---|
| Use of diagrams to help support explanations, eg AD/AS, PPF. | <b>Up to 2 marks per diagram<br/>(1 mark for labelling, 1 mark for correct information shown)<br/>to a total of 4 marks</b> |
|--|---|

Reward references to the UK economy

**1 mark per reference  
up to a maximum of 2 marks**

**Where more than two problems are considered for either the individual or the economy, reward the best two problems.**

**Award a maximum of 10 marks if only the individual or the economy is considered.**

**MAXIMUM FOR PART 11: 15 MARKS**

**12** To what extent would a significant fall in the exchange rate of the pound sterling achieve a sustained reduction in unemployment in the UK? (25 marks)

In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

|                |  |                                       |
|----------------|--|---------------------------------------|
| <b>Level 5</b> | <b>Good analysis <u>and</u> good evaluation</b>  | <b>22-25 marks<br/>(mid-point 24)</b> |
| <b>Level 4</b> | <b>Good analysis <u>but</u> limited evaluation</b><br><b>OR</b><br><b>Reasonable analysis <u>and</u> reasonable evaluation</b> | <b>17-21 marks<br/>(mid-point 19)</b> |
| <b>Level 3</b> | <b>Reasonable answer, including some correct analysis but very limited evaluation</b>  | <b>10-16 marks<br/>(mid-point 13)</b> |
| <b>Level 2</b> | <b>Weak with some understanding</b>  | <b>4-9 marks<br/>(mid-point 7)</b>    |
| <b>Level 1</b> | <b>Very weak</b>   | <b>0-3 marks<br/>(mid-point 2)</b>    |

|   |   |
|---|---|
| <b>Introduction</b>   | <ul style="list-style-type: none"> <li>• high unemployment</li> <li>• types of unemployment</li> <li>• exchange rate</li> <li>• depreciation/appreciation.</li> </ul>   |
| <b>Developing the response to the question</b><br><b>Analysis</b><br><b>and</b><br><b>Application</b> | <ul style="list-style-type: none"> <li>• the impact of changes in the exchange rate</li> <li>• the possible benefits of exchange rate depreciation to employment – cheaper exports, more expensive imports</li> <li>• the export-led multiplier</li> <li>• why exchange rate depreciation may not work</li> <li>• solution to the problem versus temporary relief</li> <li>• world trading conditions</li> <li>• the ability to meet higher demand for exports arising from exchange rate depreciation (elasticity of supply)</li> <li>• the importance of supply-side reforms</li> <li>• the impact of protectionism and the wisdom of it to help protect jobs</li> <li>• the types of unemployment which may be helped by exchange rate depreciation</li> <li>• reference to the UK and/or other economies</li> <li>• use of diagrams.</li> </ul> |
| <b>Evaluation</b>   | <ul style="list-style-type: none"> <li>• by how much the exchange rate falls may be significant</li> <li>• the duration of the weakened exchange rate</li> <li>• whether exchange rate changes can ever provide a solution</li> <li>• the cause(s) of the depreciation may be significant, e.g. lower interest rates which may be the more important impact on unemployment than the change in the exchange rate itself</li> </ul>  |



|  |   |
|--|---|
|  | <ul style="list-style-type: none"><li>• how bad the unemployment is and its causes in order to assess the relevance of a lower exchange rate</li><li>• the state of overseas markets</li><li>• the extent to which exporters pass on the benefits of the lower exchange rate in overseas prices</li><li>• the importance of elasticity of demand for exports and imports</li><li>• the importance of a sound supply-side underpinning any advantage given by the exchange rate</li><li>• whether the impact of higher import prices, for example, on inflation, negates any benefit to employment through the exchange rate depreciation</li><li>• a final judgement on to what extent exchange rate depreciation is really of any significance.</li></ul> <p><i>Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.</i></p> |
|--|---|

**USE THE LEVELS MARK SCHEME ON PAGES 4 & 5**

**MAXIMUM FOR PART 10: 25 MARKS**